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REVIEW OF THE EFFICIENCY OF THE ADMINISTRATIVE AND FINANCIAL FUNCTIONING OF THE UNITED NATIONS

Note by the Secretary-General

The Secretary-General has the honour to transmit to the members of the General Assembly a letter dated 17 February 1994 from the Chairman of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency and Chairman of the United Nations Board of Auditors to the President of the General Assembly, containing the views of the Panel and the Board submitted in accordance with section II, paragraph 8, of Assembly resolution 48/218 of 23 December 1993.

ANNEX

Letter dated 17 February 1994 from the Chairman of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency and Chairman of the United Nations Board of Auditors to the President of the General Assembly, containing the views of the Panel and the Board submitted in accordance with Assembly resolution 48/218

In resolution 48/218 of 23 December 1993, the General Assembly requested the views of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency and the United Nations Board of Auditors on how oversight functions within the United Nations could be improved, according to current reporting procedures. I am writing in response to this request in my capacity as Chairman of both the Panel of External Auditors and the Board of Auditors. The views expressed here have been the subject of extensive discussion between the members and represent, therefore, the position of both bodies. Reference to the views of the Panel, below, should be read to include the Board. A list of the members of the Panel of External Auditors and the Board of Auditors is appended to the present letter.

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External oversight mechanisms

1. The Panel welcomes warmly the General Assembly's reaffirmation of the role of the Board of Auditors as an external control mechanism for oversight, monitoring and control by the General Assembly of the administrative and financial functioning of the United Nations. In our view, a strong and independent external audit function should be at the core of the accountability arrangements of the United Nations.

2. In expressing our views on how the oversight functions of the United Nations might be improved, we wish to stress that the role and function of the Board should continue much as now. Our comments, therefore, focus on the role and function of the United Nations arrangements for internal audit, monitoring and evaluation, and on the proposals put forward by the United States for an Inspector General for the United Nations.

3. However, the Panel and the Board are not complacent about the current arrangements for external audit and believe there is scope in a number of areas for making further improvements. At its last meeting in November 1993, the Panel expressed its intention to play an active role in the General Assembly's consideration of the arrangements for the external oversight of the United Nations, as decided in Assembly decision 47/454 of 23 December 1992. The Panel will put forward its views on possible improvements to the external audit arrangements in a further document in time for consideration by the General Assembly at its next session. Among other issues, it intends to comment on the scope of the functions of the Board of Auditors; the resources available for

external audit; the use of the reports of the Board of Auditors as a vehicle for holding the Organization accountable to Member States; and the arrangements for implementing audit recommendations. In addition, the Board of Auditors will provide its views, separately, on the proposed changes to the term of appointment of members of the Board as requested by the General Assembly in resolution 48/216 D of 23 December 1993.

Internal oversight mechanisms

Roles of external and internal audit

4. The Panel believes strongly that external and internal audit should be kept separate because they fulfil different roles. It is important that there be no muddle or confusion between them. Internal audit is a systematic, independent review of all an organization's operations for the purposes of advising management on the efficiency and economy of internal control and management practices and controls. By this definition, internal audit resources are necessarily subordinate to the head of the organization within which they have been established and, as such, form part of the overall internal control system established by management. External audit, on the other hand, provides objective information, advice and assurance to the General Assembly by conducting, completely independently, both financial audits and examinations of the efficiency of the administration and management of the Organization. In principle, the nature of the work carried out by the two entities will vary because the needs of the General Assembly and the Secretary-General will be different; the work of internal audit will usually be at a more detailed level.

5. The Panel views internal audit as part of the Organization's system of internal controls and as an essential tool assisting the Secretary-General in the discharge of his responsibility for managing the United Nations. It is the responsibility of the external auditors, the Board of Auditors, to provide independent support to the General Assembly in its task of holding the Secretary-General accountable for the discharge of those responsibilities.

6. These principles are drawn from the standards and guidelines adopted by the International Organization of Supreme Audit Institutions (INTOSAI). All of the members of the Panel are also members of INTOSAI and subscribe to its guiding principles and precepts.

7. The Panel would view as a retrograde step any reorganization that would involve a single organization or unit carrying out both external and internal audit functions. In such a situation the different roles and reporting responsibilities would lead to conflicting priorities and confused loyalties resulting in a poorer, not better, service to both the General Assembly and the Secretary-General.

8. The Panel also believes that it is important for there to be a single independent external audit function. If, as has been proposed, there is a second external agency also reporting to the General Assembly covering the work now undertaken by the Internal Audit Division and other central evaluation units, there would be a number of problems. First, confusion in defining the respective roles of the two agencies and the danger of unhealthy competition

rather than effective coordination. Secondly, there would be a significant diminution in the audit service available to assist the Secretary-General if the focus shifts to reporting to the General Assembly rather than providing him with direct support. This would hamper his ability to discharge his responsibilities as chief executive of the Organization. Finally, such a system is likely to require considerable additional resources, particularly if the Secretary-General has to recreate his own in-house internal audit service, something the Panel would consider very necessary.

9. Notwithstanding these comments and the different functions of external and internal audit, INTOSAI's standards recognize that there should be a high level of coordination between them to ensure that there is an effective use of all audit resources. Adequate coordination may be achieved through periodic meetings to discuss matters of mutual interest; access to each others' audit programmes and permanent documentation; access to audit reports and management letters; and a common understanding of audit techniques, methods and terminology. The external auditor should also be in a position, through review of internal audit's programme of work and a representative sample of their working papers and reports, to comment on the adequacy of internal audit performance and coverage. Where this is found to be deficient, the Board of Auditors can report to the General Assembly and indeed has done so previously on a number of occasions. Where, however, internal audit coverage and performance is of a good standard, the external auditors can gain commensurate assurance about the general quality of the internal control in the Organization and consequently reduce the extent of their own work.

Office for Inspections and Investigations

10. Against this background the Panel very much welcomes any moves to strengthen the function and capacity of the United Nations internal audit and evaluation units. The Panel was unanimous in its clear support for the internal changes the Secretary-General has made, in particular the creation of the Office for Inspections and Investigations. In doing so, it agrees fully with the analysis and conclusions of the Joint Inspection Unit in its report entitled "Accountability and oversight in the United Nations Secretariat" (A/48/420, annex).

11. The merger of the main internal oversight units (Internal Audit Division, Central Evaluation Unit, Central Monitoring Unit and Management Advisory Service) into the Office for Inspections and Investigations will provide a clearer focus on priority areas, better coordination and the more efficient and effective use of the available resources. The appointment of an officer at the Assistant Secretary-General level to head the Office, with a direct reporting link to the Secretary-General, first underlines the importance that the Organization attaches to these functions and, secondly, reinforces the day-to-day independence of the internal oversight function within the Organization while keeping it firmly within the Secretary-General's sphere of responsibility.

Further improvements

12. The creation of the Office for Inspections and Investigations is a good first step but much has to be done to build on this framework. The Panel

considers that there are three key areas where further improvements are required if the internal oversight functions are to operative effectively. These are:

(a) Support from senior management;

(b) Quality and professionalism of staff;

(c) Role the Office for Inspections and Investigations is required to fulfil.

13. A number of national studies in both the public private sectors have found very clearly and very strongly that the support of senior management is absolutely essential if internal audit is to be an effective, contributing part of the Organization. It is clear that, in large measure, internal audit is whatever senior management wants it to be. To a great extent, the relationship between internal audit and senior management determines the respect and cooperation it receives from operating managers. In essence, senior management must visibly support internal audit if an effective internal audit function is to exist.

14. The Secretary-General's decision to set up the Office for Inspections and Investigations is one clear sign of his support. However, while a few individual senior managers do overtly support and use internal audit, the Board of Auditors has found no general sense of corporate commitment to the internal audit function within the United Nations. In too many quarters it is viewed as an imposition rather than as a positive force leading to improved management efficiency. For example, there is very little evidence of any ongoing dialogue to enable internal audit to discuss key issues and concerns with senior management; or for top management to discuss its business concerns with internal audit.

15. This lack of clear support is also manifest in the failure of the Organization to act on many of internal audit's recommendations and in the slow response to its reports. The Panel believes firmly that this lack of response arises from the management culture of the United Nations and should not be blamed on the internal audit, which has no executive responsibility and has discharged its function when weaknesses and problems are identified.

16. Therefore, the Panel considers that stronger and more visible support from senior management would assist in generating more effective internal oversight. But internal audit must earn that support. It must, through its observations and recommendations, measurably contribute to the Organization as a whole by delivering a product that justifies the support and recognition of senior management.

17. In its report on the biennium 1990-1991, 1/ the Board of Auditors commented adversely on a number of aspects of the work carried out by the Internal Audit Division. In particular, it noted deficiencies in audit planning, the standard of audit work and limitations in the professional resources available to the Unit. The Panel believes that the quality and scope of the work carried out by internal audit needs to be brought up to best professional standards. This can be achieved only if the new Office for Inspections and Investigations can

recruit or train staff with the necessary skills to do the job. While the new Office has made a start in these areas, it does not have the flexibility or resources to make the necessary changes sufficiently quickly to make rapid progress in the short or medium term.

18. As the Joint Inspection Unit has already noted (A/48/420, annex, para. 179), the merger of the main internal oversight units will not of itself bring about an improvement in the quality of the output. The Panel considers that some additional resources may be necessary. But this is not a simple question of the number of people employed; rather it is a question of the skills and experience those people possess and whether the Office has the flexibility to attract the right candidates. The Office must also work to improve its working methods and raise the quality of the output. The Panel welcomes the adoption of INTOSAI's auditing standards by the Office for Inspections and Investigations. But these standards were drawn up for external audit and in a few areas are inappropriate to internal audit or do not cover the full range of internal audit activity. For detailed guidance on the practice of internal audit, the Panel recommends that the standards and guidelines of the Institute of Internal Auditors be also adopted. The simple adoption of standards is of itself insufficient; a great deal needs to be done to make them a reality at the working level.

19. The internal oversight mechanisms are not a surrogate for good management. The Panel considers that much of the debate on this issue has focused too much on the role of the internal oversight mechanisms in uncovering waste, fraud, corruption and compliance with rules and regulations. These concerns are also reflected strongly in the terms of reference of the new Office for Inspections and Investigations. The Panel recognizes that these aspects are an essential element of internal control but considers that they have been considerably overemphasized.

20. Internal oversight mechanisms should give more attention to their role as a principal support to management by offering constructive and innovative recommendations to improve the overall management of programmes. They should be promoters of effective management, not merely policemen. The reality is that it is better to prevent waste, fraud and abuse before they occur rather than detect them after the event. Good prevention comes from good management and solid internal control.

21. In conclusion, the Panel believes that the existing framework provides a solid base for the internal oversight mechanisms of the United Nations, but that at the detailed level much can be done to improve their efficiency and effectiveness.

22. The Panel would be happy to elaborate on these views if Member States would find it helpful.

(Signed) John BOURN
Chairman, Panel of External Auditors of
the United Nations, the specialized agencies
and the International Atomic Energy Agency
Chairman, United Nations Board of Auditors

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Notes

1/ Official Records of the General Assembly, Forty-seventh Session, Supplement No. 5 and corrigendum (A/47/5), vol. I and Corr.1, paras. 288-310.

APPENDIX

Members of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency

*Sir John Bourn, KCB, Chairman Comptroller and Auditor General of the United Kingdom	United Kingdom of Great Britain and Northern Ireland
*Mr. Osei T. Prempeh, Vice-Chairman Auditor-General of Ghana	Ghana
Mr. Jérome Van de Velde Premier Président de la Cour des Comptes de Belgique	Belgium
Mr. François Faessler Deputy Director Swiss Federal Audit Office	Switzerland
Mr. L. Denis Desautels, FCA Auditor-General of Canada	Canada
Dr. Franz Fiedler President, Court of Audit	Austria
Mr. Pierre Joxe Premier Président de la Cour des Comptes de France	France
*Mr. C. G. Somiah Comptroller and Auditor General of India	India

* Member of the United Nations Board of Auditors.